

TEACHERS' RETIREMENT BOARD  
BENEFITS AND SERVICES COMMITTEE

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SUBJECT: Terms and Conditions for Rollover to  
the State Teachers' Retirement Plan

ITEM NUMBER: 5

ATTACHMENT(S): 1

ACTION: X

MEETING DATE: December 6, 2001

INFORMATION:       

PRESENTER: Ed Derman

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## **BACKGROUND**

Members of the Defined Benefit (DB) Program and participants of the Cash Balance (CB) Benefit Program, both programs in the State Teachers' Retirement Plan (STRP) that is administered by the Teachers' Retirement Board (Board), can roll over funds from other specified types of retirement plans to enhance benefits received under the STRP. A "rollover" is the tax-free transfer of an eligible distribution from one qualified retirement plan to another qualified plan, or to an Individual Retirement Arrangement (IRA). Generally, distributions eligible for rollover are those made upon separation from service (other than at retirement) or termination of the plan. Until the passage of legislation earlier this year, the Internal Revenue Code (IRC) did not permit rollovers between a defined benefit plan, such as the CalSTRS DB or CB Benefit programs, and a Section 403(b) plan or a Section 457 plan.

Prior to 1999, CalSTRS was accepting rollovers from other traditional retirement plans, including 401(k) plans, and conduit IRAs (in which rollovers from a qualified plan are held) for members of the DB Program who wished to use rollover funds for the purchase of permissive service or to redeposit previously withdrawn contributions. At that time, the Education Code did not specify requirements for accepting rollovers and CalSTRS was operating under the provisions of federal law that permitted such rollovers.

In 1996, the Education Code was amended to specifically permit rollovers for participants of the CB Benefit Program pursuant to terms and conditions adopted by the Board. However, it was not until 1999 that CalSTRS received a request for a rollover to the CB Benefit Program. This prompted the need for the Board to adopt terms and conditions for accepting rollovers. The terms and conditions adopted by the Board in October 1999 were required only for the CB Benefit Program, but for administrative consistency also were made applicable to the DB Program.

## **2001 FEDERAL TAX LEGISLATION**

On May 26, 2001, the United States Congress passed H.R. 1836, a tax relief bill named the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001. The bill was signed into law as Public Law 107-16 on June 7, 2001. The legislation contains a variety of provisions

affecting qualified plans such as the STRP. The EGTRRA provisions are designed to increase pension portability, and include the following changes to current pension provisions:

- An increase from \$170,000 to \$200,000 in the annual compensation limit used by defined benefit plans to determine contributions and benefits;
- An increase from \$140,000 to \$160,000 in the annual benefit limit applicable to defined benefit plans;
- Elimination of the prohibition on using contributions from Section 403(b) and Section 457 plans to redeposit previously withdrawn funds, or to purchase permissive service in a defined benefit plan;
- Authorization to rollover after-tax contributions from a qualified plan, such as the STRP, to another qualified plan or an IRA;
- An increase in the amount of elective deferrals to defined contribution plans from the lesser of 25 percent of compensation or \$10,500 to the lesser of 100 percent of compensation or \$11,000;
- Repeal of the contribution coordination rules that required contributions to plans to be offset by contributions to a Section 403(b) plan;
- Repeal of the maximum exclusion allowance (a contribution limit) applicable to 403(b) plans;
- A temporary non-refundable tax credit for elective contributions (up to \$2,000) made by eligible taxpayers to a defined contribution plan;
- Revision by the United States Department of the Treasury life expectancy tables used to determine required minimum distributions.

The above changes do not require any action by the Board. Implementation of those changes is not optional on the part of plan sponsors, and CalSTRS staff is in the process of making the necessary modifications to CalSTRS processes and procedures. However, there were three other changes in the federal pension plan provisions that the Board may, but is not required to, implement. The three provisions are stated below and require action by the Board if the provisions are to be implemented.

- Expansion in the types of plans from which CalSTRS may accept rollovers, to include any IRAs (not just conduit IRAs), Section 403(b) plans, and Section 457 plans to purchase service credit and redeposit previously withdrawn contributions. (Although not requiring Board action, the federal law also

permits member contributions to be rolled over to the same expanded number of options.) In addition, CalSTRS may accept rollovers of after-tax contributions for such purposes, although such after-tax contributions and their associated earnings would have to be separately tracked;

- An additional increase in the applicable dollar limit on elective deferrals to 403(b), 401(k) and 457 plans via “catch-up” contributions of up to \$1,000 annually for individuals age 50 or older;
- Authority for plan participants to elect to treat elective deferrals to 403(b) and 401(k) plans as after-tax contributions and receive tax-free withdrawals, similar to the treatment of Roth IRA contributions.

Staff will be discussing with the administrator of the Voluntary Investment Program (VIP), CalSTRS’ 403(b) program, the provisions that permit “catch-up” contributions and permit members to elect to treat elective deferrals as after-tax contributions. Consequently, no recommendation is being made at this time to incorporate these provisions into the VIP. However, Chapter 803, Statutes of 2001 (Senate Bill 501) authorizes the Board to establish terms and conditions that permit members to roll over funds from other traditional defined benefit/defined contribution retirement plans, Section 403(b) plans and Section 457 plans, and any IRAs, either to purchase permissive service credit or to redeposit previously withdrawn contributions to the DB Program.

The Internal Revenue Service (IRS) currently is developing information that will provide administrative guidance in the treatment of after-tax contributions that are rolled over to another plan. In addition, the required monitoring of those contributions will require changes to CalSTRS’ START system. Consequently, pending receipt of that guidance from the IRS, staff is deferring recommendation on accepting after-tax contributions for rollover into the STRP.

## **RECOMMENDATION**

With that exception, staff are now recommending the Board adopt terms and conditions for rollovers into the State Teachers’ Retirement Plan that incorporate the expanded pension portability provisions resulting from enactment of EGTRRA. The revised terms and conditions are stated below.

### Statutory terms and conditions

- Members and participants of the State Teachers’ Retirement Plan may roll over eligible distributions, other than from after-tax contributions, from a qualified retirement plan (which includes a Section 403(b) plan), as defined in the IRC, or from a Section 457 plan or an IRA, to the extent authorized under federal law;
- CalSTRS may accept eligible rollover distributions from qualified plans (which includes Section 403(b) plans), Section 457 plans and IRAs, other than from after-tax

contributions, for credit to the DB Program or CB Benefit Program, whichever is applicable, pursuant to provisions of the IRC, related regulations and California law.

Administrative terms and conditions

- Members of the DB Program may rollover eligible distributions from other qualified plans (which include Section 403(b) plans) or Section 457 plans for credit to the DB Program to purchase permissive service and to redeposit previously withdrawn funds;
- Participants of the CB Benefit Program may rollover such eligible distributions from other plans for credit to the CB Benefit Program;
- Prior to accepting a rollover distribution, CalSTRS shall receive from the DB Program member or CB Benefit Program participant, whichever is applicable, a properly executed rollover authorization on a form prescribed by CalSTRS for incoming rollover purposes;
- CalSTRS may retain a properly executed rollover authorization pending receipt of the related rollover distribution, providing federal rollover provisions and related regulations are complied with prior to CalSTRS accepting the rollover distribution;
- Prior to accepting a rollover distribution, CalSTRS shall ensure that a distributable event occurred, that the distribution was issued from a qualified plan, Section 457 plan or IRA and the distribution is eligible to be rolled over to the State Teachers' Retirement Plan pursuant to federal law and related regulations;
- CalSTRS shall not accept and shall return a distribution if the distribution is not issued from an IRA, a Section 457 plan or a qualified plan, as defined in the IRC, is not an eligible distribution, or cannot be accepted in accordance with CalSTRS procedures or IRC rollover provisions and related regulations;
- An incoming rollover distribution shall comply with applicable federal and state laws and related regulations, as determined by CalSTRS;
- CalSTRS shall develop and maintain procedures for accepting incoming rollovers, including, but not limited to, a procedure to separately identify and account for rollover funds and earnings thereon as prescribed by federal law and related regulations;
- Pursuant to Section 22905 of the Education Code, CalSTRS shall not accept rollovers for credit to the Defined Benefit Supplement Program.

PROPOSED  
RESOLUTION  
OF THE  
TEACHERS' RETIREMENT BOARD  
BENEFITS AND SERVICES COMMITTEE

SUBJECT: Adoption of Terms and Conditions for Accepting Rollovers into the  
State Teachers' Retirement Plan

RESOLUTION NO. \_\_\_\_\_

WHEREAS, CalSTRS accepts rollovers for members of the Defined Benefit Program and participants of the Cash Balance Benefit Program as permitted under federal law, and

WHEREAS, the Teachers' Retirement Law provides authority for participants of the Cash Balance Benefit Program to transfer funds from eligible retirement plans into the Cash Balance Benefit Program to the extent that the transfers are allowable under, and are completed in a manner prescribed by, applicable federal and state laws and related regulations, and

WHEREAS, on and after January 1, 2002, the Teachers' Retirement Law will permit members of the Defined Benefit Program to transfer funds from eligible retirement plans into the Teachers' Retirement Fund, pursuant to terms and conditions established by the Board, to purchase service credit or redeposit previously refunded contributions to the extent that the transfer is allowable under, and is completed in a manner prescribed by, applicable federal and state law and related regulations, and

WHEREAS, on and after January 1, 2002, the Teachers' Retirement Law will no longer specifically prohibit the use of contributions from a plan qualified under Section 403(b) of the Internal Revenue Code to purchase credit for out-of-state service, and

WHEREAS, the Teachers' Retirement Law requires rollovers to be made pursuant to terms and conditions established by the Board; therefore, be it

RESOLVED that the Benefits and Services Committee recommend the Teachers' Retirement Board adopt the attached terms and conditions for accepting rollovers for members of the Defined Benefit Program and participants of the Cash Balance Benefit Program.

Adopted by:  
Benefits and Services Committee

Ratified by:  
Teachers' Retirement Board

On December 6, 2001

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James D. Mosman

Terms and Conditions for Accepting Rollovers into  
the State Teachers' Retirement Plan

1. Members and participants of the State Teachers' Retirement Plan may roll over eligible distributions, other than from after-tax contributions, from a qualified retirement plan (which includes a Section 403(b) plan), as defined in the IRC, or from a Section 457 plan or an IRA, to the extent authorized under federal law.
2. Members of the DB Program may rollover eligible distributions from other qualified plans (which include Section 403(b) plans) or Section 457 plans for credit to the DB Program to purchase permissive service and to redeposit previously withdrawn funds.
3. Participants of the CB Benefit Program may rollover such eligible distributions from other plans for credit to the CB Benefit Program.
4. CalSTRS may accept eligible rollover distributions from qualified plans (which includes Section 403(b) plans), Section 457 plans and IRAs, other than from after-tax contributions, for credit to the DB Program or CB Benefit Program, whichever is applicable, pursuant to provisions of the IRC, related regulations and California law.
5. Prior to accepting a rollover distribution, CalSTRS shall receive from the DB Program member or CB Benefit Program participant, whichever is applicable, a properly executed rollover authorization on a form prescribed by CalSTRS for incoming rollover purposes.
6. CalSTRS may retain a properly executed rollover authorization pending receipt of the related rollover distribution, providing federal rollover provisions and related regulations are complied with prior to CalSTRS accepting the rollover distribution.
7. Prior to accepting a rollover distribution, CalSTRS shall ensure that a distributable event occurred, that the distribution was issued from a qualified plan, Section 457 plan or IRA and the distribution is eligible to be rolled over to the State Teachers' Retirement Plan pursuant to federal law and related regulations.
8. CalSTRS shall not accept and shall return a distribution if the distribution is not issued from an IRA, a Section 457 plan or a qualified plan, as defined in the IRC, is not an eligible distribution, or cannot be accepted in accordance with CalSTRS procedures or IRC rollover provisions and related regulations.
9. An incoming rollover distribution shall comply with applicable federal and state laws and related regulations, as determined by CalSTRS.
10. CalSTRS shall develop and maintain procedures for accepting incoming rollovers, including, but not limited to, a procedure to separately identify and account for rollover funds and earnings thereon as prescribed by federal law and related regulations.

11. Pursuant to Section 22905 of the Education Code, CalSTRS shall not accept rollovers for credit to the Defined Benefit Supplement Program.